

OffShore Printing

A Commentary by Dr. Joe Webb

Q. How is offshore printing going to affect our industry? More importantly, how can we combat this growing concern?

A. Good question and it's tough to comment briefly. There are many issues here and I'll try to do justice in this limited space. This is not an easy subject, especially for domestic service providers who seem to be getting the short end of the deal. From a broad economics perspective, what you are seeing is a shift in the differential advantage between nations. That is the genesis of trade: not the exchange of similar goods, but the exchange of very different goods, some of which may go in and out of different ports, if ports are used at all. Very often, trade in services do not require ports; since services have higher value added than many manufactured goods (such as intellectual property) but do not have tangible form, they use communications technologies, and not transportation.

In our study of “offshore printing” last year, it was clear what print buyers told us: geography no longer made a difference, especially when there were U.S.- based sales people or print brokers there to coordinate communications and logistical issues. It was also very clear that the quality barriers for many of these print buyers had disappeared, along with many turnaround issues. FedEx and UPS have seen to that. Some commented that they were able to again afford to get traditional Cromalin™ and Matchprint™ proofs, which they had been discouraged from getting in recent years.

The buyers professed that they were quite surprised at how print quality had changed for the better, and feel that they were not just getting “cheap printing” by any measure, but they were getting mainstream quality printing. Remember, for almost a decade, I have been warning that print was too expensive in relation to what it delivers compared to other media alternatives. The marketplace has made it clear: U.S. printers cannot raise prices as they are competing for the same dollars as e-commerce, e-marketing, public relations, events, and other promotions. Print buyers are pressured to squeeze more out of the same budgets, and therefore welcome the alternative that offshore printing can provide.

There are still limitations in the market for offshore printing. There are distinct run length ranges for which transportation costs (plus “hidden” administrative management costs and risk of potential time lost unacceptable print jobs) outweigh potential print savings. The real question is how the relationship with the print buyer of U.S. printers can withstand the encroachment of offshore suppliers. It's printers who have made print a commodity, and the buyers accepted that characterization, for decades.

Sell print from the U.S. to a company in China? Not in our lifetimes. It is doubtful that any U.S. printing company could sell its raw printed product directly to businesses in China. The cost advantage stems principally from significant differences in labor cost, even when balanced by the higher productivity of U.S. print workers.

But, publishers who are customers of U.S. printers do, as do companies that sell goods and services to China. There is a growing trade in services with China, from banks, insurance, education, transportation, and other major business service categories. In 2004, almost \$34 billion of goods were exported to China. The top ten goods, representing 47% of the total were: semiconductors, soybeans, industrial machines, civilian aircraft, chemicals-organic, cotton, raw, plastic materials, computer accessories, telecommunications equipment, and measuring, testing, control instruments.

A printer should ask: Do I work with companies that are active in these product areas? Is there an export agency I should work with to identify potential clients who need particular print products necessary for their marketing in China? (The local Small Business Administration office often has export assistance capabilities). Are there expert translators I can work with to create printed materials for companies interested in selling to China and other global markets? How do I find the fastest growing, most innovative companies who may be good exporters? While you may not be able to export your own products, you can often ride the coattails of the companies that do. Having the right customers is a good idea no matter what business you are in. After all, print is not always direct demand, but derived demand from the needs created by other business activities.

Of greater concern to me is that printers, who often claim to be strident entrepreneurs, should be looking for growing print markets, including the potential of creating or investing in overseas printing firms. Sometimes opportunities are not conveniently nearby; in the connected world, they will often be half that world away. There was a time when selling into the next county was a big deal; today, selling abroad is done without a thought.

Investing in “offshore” businesses is an extraordinarily complex area, as some of these countries do not have well-developed banking systems and limitations, legal or cultural, on some kinds of outside investment, which amplify typical business risk. The Index of Economic Freedom is a good start to get background on these countries. This might be a great topic for industry associations and others to start investigating and promoting on behalf of their members. NPES, for example, has been active in this area for many years.

In 20 years, China will be the largest economy in the world, and not long after that, India will be the second. We also need to keep an eye on Thailand as a growing print exporter. Printing imports from India are nominal now, but they are a significant player in publishing and graphic design services for all English-speaking markets. Whatever the case, as these countries grow, their own reliance on exports for their principal growth will diminish as incomes rise and internal consumption of goods grows.

Last year, one survey of China indicated that more than 500 million had never brushed their teeth: I envisioned the Procter & Gamble product managers for Crest, Scope, and Fixodent doing cartwheels in the aisles between their cubicles, as they celebrated the opening of a new market for what are essentially very mature products. Beyond those basics, these countries will become prime consumers of services and intellectual property products over time. Right now, there is often minimal respect for the value of intellectual property in emerging markets, but that will

gradually change once native entrepreneurs realize there are good margins for these offerings in their own markets).

As countries went from agricultural to manufacturing economies, service businesses such as transportation, finance, and education began to grow in comparative value to those older industries. Today, when hospitality and travel is excluded, the average service job pays more than the average manufacturing job. These countries are rapidly moving through their manufacturing stage, and there will be a time, when they, too, will look for offshore manufacturing in the countries that are undeveloped at that future time.

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